

CITY OF OSCEOLA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

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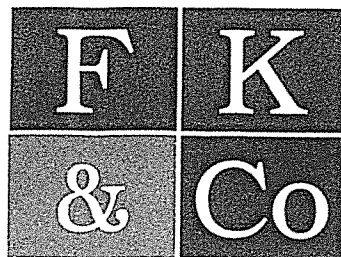
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City of Osceola

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Fred P. Diehl	Mayor	January 1, 2016
Chris Dorsey	Council Member	January 1, 2016
Dan Hopper	Council Member	January 1, 2018
David Walkup	Council Member	January 1, 2016
Dr. George Fotiadis	Council Member	January 1, 2016
Dennis Page	Council Member	January 1, 2018
Ty Wheeler	City Administrator/Clerk	Indefinite
Mark Elcock	Attorney	Indefinite

City of Osceola



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osceola, Iowa, (City) as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

Basis for Adverse Opinion on Aggregate Discretely Presented Component Units

The financial statements referred to above do not include financial data for the City's legally separate component units. Accounting principles applicable to the cash basis of accounting require financial data for these component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. The amounts by which this departure would affect the receipts, disbursements and the cash basis balances of the aggregate discretely presented component units has not been determined.

Adverse Opinion on Aggregate Discretely Presented Component Units

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the City as of June 30, 2015, or the changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City as of June 30, 2015, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Emphasis of a Matter

As disclosed in Note 5 to the financial statements, the City adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the one year ended June 30, 2014 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The financial statements for the eight years ended June 30, 2013 (which are not presented herein) were audited by another auditor who expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5, including the Schedule of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, the City's Management's Discussion and Analysis, the budgetary comparison information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 8 through 13 and 31 through 35 has not been subjected to the auditing procedures applied in the audit of the basic statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 15, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.


FALLER, KINCHELOE & CO., PLC

Des Moines, Iowa
February 15, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Osceola (City) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2015 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 16.5%, or approximately \$1,752,000 from fiscal year 2014 to fiscal year 2015. Bond proceeds decreased by \$4,098,000 due to refinancing of outstanding debt in fiscal year 2014. Capital grants, contributions and restricted interest increased approximately \$1,929,000 due the addition of several grants in fiscal year 2015.
- Disbursements of the City's governmental activities increased by 61.0%, or approximately \$4,777,000, in fiscal year 2015 from fiscal year 2014. Payment to bond refunding agent disbursements increased \$3,045,000, due to the pay off of some callable bonds. In addition, capital projects disbursements increased approximately \$1,466,000 due to the 2014 paving project, West Lake Marina rehabilitation project and the Depot Restoration Phase II project.
- The City's total cash basis net position decreased 53.7%, or approximately \$3,626,000, from June 30, 2014 to June 30, 2015. Of this amount, the cash basis net position of the governmental activities decreased approximately \$3,682,000 and the cash basis net position of the business type activities increased approximately \$56,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the non-major governmental funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operation of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position present the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, and Trust & Agency funds, 3) the Debt Service Fund, 4) the Capital Projects Fund and, 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds are a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Fund. Enterprise Funds are used to report business type activities. The City maintains one Enterprise Fund to provide separate information for the Sewer Fund, considered to be a major fund of the City.

The required financial statements for proprietary funds are a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased sharply from a year ago, decreasing from approximately \$6.095 million to approximately \$2.413 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2015	2014
Receipts:		
Program receipts:		
Charges for service	\$ 800	662
Operating grants, contributions and restricted interest	573	553
Capital grants, contributions and restricted interest	2,051	122
General receipts:		
Property tax	2,485	2,406
Tax increment financing	587	536
Hotel motel tax	291	273
Local option sales tax	866	775
Gaming wager tax	1,156	1,096
Other city tax	8	8
Unrestricted interest on investments	9	33
Bond proceeds	-	4,098
Gain on sale of investments	-	16
Miscellaneous	30	30
Total receipts	8,856	10,608
Disbursements:		
Public safety	1,198	1,140
Public works	1,343	1,273
Culture and recreation	813	792
Community and economic development	1,513	1,433
General government	683	645
Debt service	1,457	1,458
Capital projects	2,557	1,091
Payment to bond refunding agent	3,045	-
Total disbursements	12,609	7,832
Change in cash basis net position before transfers	(3,753)	2,776
Transfers, net	71	46
Change in cash basis net position	(3,682)	2,822
Cash basis net position beginning of year	6,095	3,273
Cash basis net position end of year	\$ 2,413	6,095

The City's total receipts for governmental activities decreased 16.5%, or approximately \$1,752,000. The total cost of all programs and services increased approximately \$4,777,000, or 61.0%, with no new programs added this year. The decrease in receipts was the result of bond proceeds received in fiscal year 2014, with no bond proceeds received in fiscal year 2015. The increase in program costs was the result of a payment of approximately \$3,045,000 to the bond refunding agent. In addition, the increase in program costs was also due to ongoing capital improvement projects.

The City maintained a stable property tax dollar request for fiscal year 2015. Due to an increase in the commercial/industrial property tax backfill, property tax receipts increased by approximately \$79,000 in fiscal year 2015. Property tax receipts are budgeted to remain relatively the same in fiscal year 2016.

The cost of all governmental activities this year was approximately \$12.609 million compared to approximately \$7.832 million last year. However, as shown on the Statement of Activities and Net Position on page 15, the amount taxpayers ultimately financed for these activities was \$6.141 million because some of the cost was paid by those directly benefited from the programs (approximately \$800,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (approximately \$2,623,000). The City paid for the remaining "public benefit" portion of governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts. Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in fiscal year 2015 from approximately \$1,337,000 to approximately \$3,423,000, principally due to increased capital grants and contributions in fiscal year 2015 compared to fiscal year 2014. These capital grants were received from the Federal Aviation Administration, the Iowa Economic Development Authority and the Department of Transportation which were used to fund airport projects, infrastructure projects and the Depot Restoration Phase II project.

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2015	2014
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 1,287	1,183
General receipts:		
Miscellaneous	7	2
Total receipts	<u>1,294</u>	<u>1,185</u>
Disbursements:		
Sewer	<u>1,166</u>	<u>1,180</u>
Total disbursements	<u>1,166</u>	<u>1,180</u>
Change in cash basis net position before transfers	128	5
Transfers, net	<u>(71)</u>	<u>(46)</u>
Change in cash basis net position	57	(41)
Cash basis net position beginning of year	<u>651</u>	<u>692</u>
Cash basis net position end of year	<u>\$ 708</u>	<u>651</u>

Total business type activities receipts for the fiscal year were approximately \$1.294 million compared to approximately \$1.185 million last year. The increase was due primarily due to the 5% rate increase in fiscal year 2015. The cash balance increased approximately \$57,000 from the prior year due to the 5% rate increase. Total disbursements for the fiscal year decreased 1.2% to approximately \$1,166,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City completed the year, its governmental funds reported a combined fund balance of \$2,412,981, a decrease of more than \$3,682,000 below last year's total of \$6,095,127. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased by \$58,080 from the prior year to \$1,189,580. The City is attempting to maintain the General Fund on a status quo basis from year to year.
- The Special Revenue, Library Fund cash balance increased by \$923 from the prior year to \$319,766. The monies in this fund can only be spent on Library related costs.
- The Debt Service Fund cash balance decreased by \$3,031,877 from the prior year to \$10,794. The decrease in the cash balance was due to the payment of \$3,044,660 to the bond refunding agent for the retirement of outstanding debt.
- The Capital Projects cash balance decreased by \$194,069 to \$418,357. This decrease can be attributed to ongoing capital projects which were funded in previous fiscal years.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Sewer Fund cash balance increased by \$56,567 to \$707,928, due to a 5% increase in rates in fiscal year 2015.

BUDGETARY HIGHLIGHTS

During the course of the year, the City amended its budget one time.

The City's receipts were \$91,795 less than budgeted. This was primarily due to the City receiving less intergovernmental receipts than anticipated.

Disbursements in the community and economic development, general government, debt service and capital projects functions were \$198,410, \$68,777, \$2,507 and \$208,064 more than the amended budget amounts. In addition, total disbursements were \$332,644 more than the budgeted amounts.

DEBT ADMINISTRATION

At June 30, 2015, the City had approximately \$12,463,000 in bonds and other long-term debt outstanding, compared to approximately \$16,705,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2015	2014
General obligation bonds and notes	\$ 8,247	12,388
Revenue note	4,100	4,300
Lease-purchase agreement	116	17
Total	\$ 12,463	16,705

Debt decreased due to the payoff of existing debt. However, the City did incur an additional \$140,061 in new capital leases during the fiscal year.

The amount of general obligation debt a political subdivision of the State of Iowa can incur is controlled by constitutional debt limit, which is an amount equal to 5% of the actual value of property within the corporate limits, taken from the last county tax list. The City's debt limit, based upon said valuation, amounts to the following:

Actual Value of Property, 2013	\$ 246,958,761
Debt Limit	<u>0.05</u>
	<u>\$ 12,347,938</u>

The City's outstanding general obligation debt of \$8,247,000 is below the constitutional debt limit of \$12,347,938.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2015 budget, tax rates, and fees that will be charged for various City activities. The multi-residential roll-back did not impact the city to a great extent. Additionally, Osceola Corp's total valuation increased 11% in 2015. This will help the city in future budget years. The city remains concern about the commercial/industrial property tax roll-back and backfill. It is assumed the State Legislature will eventually eliminate it.

These indicators were taken into account when adopting the budget for fiscal year 2016. Rather than opting for a levy rate neutral budget, the City Council opted to levy a tax revenue neutral budget and eliminate a full time position in City Hall.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayer, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ty Wheeler, City Administrator/Clerk, 115 N Fillmore, Box 465, Osceola, IA 50213.

Basic Financial Statements

City of Osceola

Exhibit A

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2015

	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions / Programs:							
Governmental activities:							
Public safety	\$ 1,198,303	75,143	25,069	22,088	(1,076,003)	-	(1,076,003)
Public works	1,343,162	489,884	512,840	-	(340,438)	-	(340,438)
Culture and recreation	813,069	145,418	8,824	-	(658,827)	-	(658,827)
Community and economic development	1,512,821	77,684	26,102	-	(1,409,035)	-	(1,409,035)
General government	682,897	11,876	-	-	(671,021)	-	(671,021)
Debt service	1,456,870	-	-	1,989	(1,454,881)	-	(1,454,881)
Capital projects	2,557,642	-	-	2,026,458	(531,184)	-	(531,184)
Total governmental activities	9,564,764	800,005	572,835	2,050,535	(6,141,389)	-	(6,141,389)
Business type activities:							
Sewer	1,165,813	1,286,891	-	-	-	121,078	121,078
Total business type activities	1,165,813	1,286,891	-	-	-	121,078	121,078
Total	\$ 10,730,577	2,086,896	572,835	2,050,535	(6,141,389)	121,078	(6,020,311)
General Receipts and Transfers:							
Property and other city tax levied for:							
General purposes					1,613,025	-	1,613,025
Debt service					872,418	-	872,418
Tax increment financing					587,337	-	587,337
Hotel motel tax					291,141	-	291,141
Local option sales tax					866,085	-	866,085
Gaming wager tax					1,155,591	-	1,155,591
Other city tax					7,683	-	7,683
Unrestricted interest on investments					8,762	31	8,793
Payment to bond refunding agent					(3,044,660)	-	(3,044,660)
Miscellaneous					30,516	6,803	37,319
Transfers					71,345	(71,345)	-
Total general receipts and transfers					2,459,243	(64,511)	2,394,732
Change in cash basis net position					(3,682,146)	56,567	(3,625,579)
Cash basis net position beginning of year, as restated					6,095,127	651,361	6,746,488
Cash basis net position end of year					\$ 2,412,981	707,928	3,120,909
Cash Basis Net Position							
Restricted:							
Nonexpendable:							
Library					\$ 1,759	-	1,759
Cemetery perpetual care					103,262	-	103,262
Expendable:							
Streets					120,922	-	120,922
Tax increment financing					199,574	-	199,574
Capital projects					418,357	-	418,357
Debt service					10,794	309,397	320,191
Other purposes					473,632	-	473,632
Unrestricted					1,084,681	398,531	1,483,212
Total cash basis net position					\$ 2,412,981	707,928	3,120,909

See notes to financial statements.

City of Osceola

Exhibit B

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2015

	Special Revenue		Debt Service	Capital Projects	Nonmajor	Total
	General	Library				
Receipts:						
Property tax	\$1,527,430	-	872,419	-	85,595	2,485,444
Tax increment financing	-	-	-	-	587,337	587,337
Other city tax	1,454,416	-	-	-	866,085	2,320,501
Licenses and permits	89,559	-	-	-	-	89,559
Use of money and property	54,957	1,352	1,989	-	4	58,302
Intergovernmental	36,671	-	-	1,716,355	512,530	2,265,556
Charges for service	630,637	-	-	-	-	630,637
Miscellaneous	171,567	7,472	-	235,103	4,455	418,597
Total receipts	3,965,237	8,824	874,408	1,951,458	2,056,006	8,855,933
Disbursements:						
Operating:						
Public safety	978,126	-	-	-	220,177	1,198,303
Public works	643,245	-	-	-	699,917	1,343,162
Culture and recreation	688,475	7,901	-	-	116,693	813,069
Community and economic development	389,559	-	-	-	1,123,262	1,512,821
General government	613,484	-	-	-	69,413	682,897
Debt service	-	-	1,456,870	-	-	1,456,870
Capital projects	-	-	-	2,557,642	-	2,557,642
Total disbursements	3,312,889	7,901	1,456,870	2,557,642	2,229,462	9,564,764
Excess (deficiency) of receipts over (under) disbursements	652,348	923	(582,462)	(606,184)	(173,456)	(708,831)
Other financing sources (uses):						
Payment to bond refunding agent	-	-	(3,044,660)	-	-	(3,044,660)
Transfers in	50,105	-	595,245	412,115	602,793	1,660,258
Transfers out	(760,533)	-	-	-	(828,380)	(1,588,913)
Total other financing sources (uses)	(710,428)	-	(2,449,415)	412,115	(225,587)	(2,973,315)
Change in cash balances	(58,080)	923	(3,031,877)	(194,069)	(399,043)	(3,682,146)
Cash balances beginning of year	1,247,930	318,843	3,042,671	612,426	873,257	6,095,127
Cash balances end of year	\$1,189,850	319,766	10,794	418,357	474,214	2,412,981
Cash Basis Fund Balances						
Nonspendable:						
Library	\$ -	-	-	-	1,759	1,759
Cemetery perpetual care	-	-	-	-	103,262	103,262
Restricted for:						
Streets	-	-	-	-	120,922	120,922
Tax increment financing	-	-	-	-	199,574	199,574
Capital projects	-	-	-	418,357	-	418,357
Debt service	-	-	10,794	-	-	10,794
Other purposes	104,804	319,766	-	-	49,062	473,632
Unassigned	1,085,046	-	-	-	(365)	1,084,681
Total cash basis fund balances	\$1,189,850	319,766	10,794	418,357	474,214	2,412,981

See notes to financial statements.

City of Osceola

Exhibit C

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2015

	<u>Enterprise</u>
	<u>Sewer</u>
Operating receipts:	
Charges for service	\$ 1,286,891
Miscellaneous	6,803
Total operating receipts	<u>1,293,694</u>
Operating disbursements:	
Business type activities	<u>726,826</u>
Total operating disbursements	<u>726,826</u>
Excess of operating receipts over operating disbursements	<u>566,868</u>
Non-operating receipts (disbursements):	
Interest on investments	31
Debt service	(305,004)
Capital projects	(133,983)
Net non-operating receipts (disbursements)	<u>(438,956)</u>
Excess of receipts over disbursements	<u>127,912</u>
Other financing sources:	
Transfers out	<u>(71,345)</u>
Total other financing sources	<u>(71,345)</u>
Change in cash balances	56,567
Cash balances beginning of year	<u>651,361</u>
Cash balances end of year	<u>\$ 707,928</u>
Cash Basis Fund Balances	
Restricted for debt service	\$ 309,397
Unrestricted	<u>398,531</u>
Total cash basis fund balances	<u>\$ 707,928</u>

See notes to financial statements.

City of Osceola

Exhibit D

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Fiduciary Fund

As of and for the year ended June 30, 2015

	Agency
	Friends of
	Depot
Additions:	
Miscellaneous	\$ 77
Total additions	<u>77</u>
Deductions:	
None	-
Total deductions	<u>-</u>
Change in cash balances	77
Cash balances beginning of year	<u>20,746</u>
Cash balances end of year	<u><u>\$ 20,823</u></u>

See notes to financial statements.

City of Osceola

Notes to Financial Statements

June 30, 2015

(1) Summary of Significant Accounting Policies

The City of Osceola (City) is a political subdivision of the State of Iowa located in Clarke County. It operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general governmental services. The City also provides sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City (the primary government) and exclude the City's component units. The component units discussed below are not included in the City's reporting entity although its operational or financial relationship with the City is significant.

Excluded Component Units

- The Osceola Public Library Foundation was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The purpose of the Osceola Public Library Foundation is to support the activities of the Osceola, Iowa public library.
- The Osceola Volunteer Firefighter's Association was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The purpose of the Osceola Volunteer Firefighter's Association is to support the activities of the Osceola, Iowa fire department.
- The Osceola Municipal Waterworks (Waterworks) is presented in a separate column to emphasize it is legally separate from the City, but is financially accountable to the City or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

The Waterworks was established to operate the City's waterworks facilities. The Waterworks is governed by a five member Board of Trustees appointed by the Mayor and approved by the City Council. Title to all property of the Waterworks is held in the name of the City. A financial benefit/burden relationship exists between the City and the Waterworks in that the City is authorized by statute to issue general obligation debt for a City utility and may certify taxes for the payment of the debt.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Clarke County Reservoir Commission, Clarke County Assessor's Conference Board, Emergency Management Commission, Clarke County Development Corporation, the Main Street Board and the Clarke County Jail and Law Enforcement Center.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds, the proprietary fund and the fiduciary fund. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

The Special Revenue, Library Fund accounts for resources received by the Library which is required to be spent on the Library.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary fund:

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

Additionally, the City reports a fiduciary fund to account for assets held by the City as an agent for the Friends of Depot.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2015, disbursements exceeded the amounts budgeted in the community and economic development, general government, debt service and the capital projects functions.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in the obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$309,394 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The City's investment in the Iowa Public Agency Investment Trust is unrated.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes, and the revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds and Notes		Sewer Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 1,096,000	195,474	205,000	102,704	1,301,000	298,178
2017	1,131,000	174,854	205,000	100,449	1,336,000	275,303
2018	1,125,000	152,286	210,000	97,784	1,335,000	250,070
2019	1,145,000	128,245	210,000	94,634	1,355,000	222,879
2020	1,175,000	102,225	215,000	90,854	1,390,000	193,079
2021	685,000	74,225	220,000	86,984	905,000	161,209
2022	710,000	56,220	225,000	82,364	935,000	138,584
2023	730,000	37,290	230,000	77,301	960,000	114,591
2024	340,000	16,253	235,000	71,781	575,000	88,034
2025	110,000	3,025	240,000	65,613	350,000	68,638
2026	-	-	250,000	59,313	250,000	59,313
2027	-	-	255,000	51,813	255,000	51,813
2028	-	-	265,000	44,162	265,000	44,162
2029	-	-	270,000	36,213	270,000	36,213
2030	-	-	280,000	28,112	280,000	28,112
2031	-	-	290,000	19,012	290,000	19,012
2032	-	-	295,000	9,588	295,000	9,588
	<u>\$ 8,247,000</u>	<u>940,097</u>	<u>4,100,000</u>	<u>1,118,681</u>	<u>12,347,000</u>	<u>2,058,778</u>

Sewer Revenue Improvement and Refunding Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$4,700,000 of sewer revenue improvement and refunding bonds issued May 31, 2012. The bonds were issued for the purpose of financing construction of improvements to the municipal sanitary sewer system and refunding the City's outstanding Series 2003 and 1994 sewer revenue bonds. The bonds are payable solely and only out of the net earnings of the Sewer Utility System and are payable through 2032. Annual principal and interest payments on the bonds are expected to require less than 54% of net receipts. The total principal and interest remaining to be paid on the bonds is \$5,218,681. For the current year, principal and interest paid and total customer net receipts were \$305,004 and \$566,868, respectively.

The resolutions providing for the issuance of the sewer revenue improvement and refunding bonds include the following provisions:

- (a) The bond will only be redeemed from the future earnings of the City and the bond holder holds a lien on the future earnings of the funds.
- (b) The City shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 110% of the principal and interest of all outstanding bonds and notes due in the fiscal year.
- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of installment principal due shall be made to a sewer revenue bond and interest sinking account. Monies in this fund are to be used solely for the purpose of paying principal and interest on the bond.
- (d) A sewer reserve fund shall be established and maintained in the amount of \$309,313. The reserve fund will be used for the payment of principal and interest whenever funds on deposit in the sinking fund are insufficient.
- (e) All users of the system, including the City, are required to be charged for service.

The City's did not fund, on a monthly basis, the sewer revenue bond sinking account as required. Also, the City is not being charged for sewer service as required.

(4) Lease Purchase Agreements

On September 9, 2009, the City entered into a lease-purchase agreement to lease a motor grader. The lease term was for five years, with interest at 4.50% per annum. During the year ended June 30, 2015, the City made a final payment of \$18,225.

On August 19, 2014, the City entered into a lease-purchase agreement to lease a snow plow. The lease term is for five years, with interest at 2.25% per annum, payable from road use tax receipts. Road use tax receipts are generally projected to produce 100% of the debt service requirements over the life of the agreement. The agreement states the obligation will not constitute a general obligation of the City but will be payable solely and only from annual road use tax monies received by the City from the State of Iowa. The principal balance owed on the road use tax lease-purchase agreement is \$92,816 as of June 30, 2015.

On April 8, 2015, the City entered into a lease-purchase agreement to lease a track loader. The lease term is for four years, with interest at 2.75% per annum, payable from sewer charges for service receipts. Sewer charges for service receipts are generally projected to produce 100% of the debt service requirements over the life of the agreement. The agreement states the obligation will not constitute a general obligation of the City but will be payable solely and only from sewer charges for services receipts. The principal balance owed on the sewer charges for services receipts lease-purchase agreement is \$23,436 as of June 30, 2015.

The following is a schedule of the future minimum lease payments and the present value of the net minimum lease payments under the agreements in effect at June 30, 2015:

Year Ended June 30,	Snow Plow	Track Loader	Total
2016	\$ 24,952	6,267	31,219
2017	24,952	6,267	31,219
2018	24,952	6,267	31,219
2019	24,952	6,267	31,219
Minimum Lease Payments	99,808	25,068	124,876
Less Amount Representing Interest	(6,992)	(1,632)	(8,624)
Present Value of Minimum Lease Payments	\$ 92,816	23,436	116,252

During the year ended June 30, 2015, the City made principal payments of \$23,809 and interest payments of \$1,143 on the above two lease purchase agreements.

(5) **Pension Plan**

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

Protection occupation members may retire at normal retirement age, which is generally at age 55. Protection occupation members may retire any time after reaching age 50 with 22 or more years of covered employment.

The formula used to calculate a protection occupation member's monthly IPERS' benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the City contributed 8.93 percent for a total rate of 14.88 percent. Protection occupation members contributed 6.76 percent of pay and the City contributed 10.14 percent for a total rate of 16.90 percent

The City's contributions to IPERS for the year ended June 30, 2015 were \$145,915.

Collective Net Pension Liabilities, Collective Pension Expense, and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the City's liability for its proportionate share of the collective net pension liability totaled \$461,020. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the City's proportion was 0.0116245 percent, which was a decrease of .0072176 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015 the City collective pension expense, collective deferred outflows and collective deferred inflows totaled \$56,291, \$32,556 and \$366,471 respectively.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00 percent per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent per annum, compounded annually, net of investment expense, including inflation.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23 %	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100 %</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payment to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
City's proportionate share of the net pension liability	\$ 1,256,410	461,020	(209,978)

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(6) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 33 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with United Healthcare. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you go basis. The most recent active member monthly premiums for the City and the plan members are \$558 for single coverage, \$1,115 for employee/spouse coverage, \$1,060 for employee/dependent coverage, and \$1,673 for family coverage. For the year ended June 30, 2015, the City contributed \$386,437 and plan members eligible for benefits contributed \$25,180 to the plan.

(7) **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and compensatory hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory hours payable to employees at June 30, 2015, primarily relating to the General Fund is \$117,555.

The liability has been computed based on the rates of pay in effect at June 30, 2015.

(8) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2015 is as follows:

Transfer to	Transfer from	Amount
General	Enterprise: Sewer	<u>\$ 50,105</u>
Special Revenue: Employee Benefits	General	<u>462,989</u>
Special Revenue: Road Use Tax	General	<u>139,804</u>
Debt Service	Special Revenue: Urban Renewal Tax Increment	574,005
	Enterprise: Sewer	<u>21,240</u>
		<u>595,245</u>
Capital Projects	General	157,740
	Special Revenue: Urban Renewal Tax Increment	<u>254,375</u>
		<u>412,115</u>
		<u>\$ 1,660,258</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(9) **Casino Lease**

The City of Osceola and the Waterworks have entered into a lease agreement with HGI-Lakeside, LLC and its successors (Casino) for certain real estate surrounding West Lake and the use of the lake in the operation of a casino. Unless the Casino terminates the lease, this lease is renewable by the Casino every five years, with the term of the lease extending through the year 2047.

As part of this lease, the City is to receive 1.25% of adjusted gross gambling receipts per year from the Casino. The total amount received by the City in fiscal year 2015 in relation to this was \$638,935. The City is also receiving 0.5% of adjusted gross gambling receipts from the Casino. The total amount received by the City in fiscal year 2015 in relation to this was \$258,328. In addition, the City is also receiving an additional 0.5% of adjusted gross gambling receipts from the Casino. These receipts are paid direct by the Casino to a bank account controlled by the Clarke County Reservoir Commission. The total amount received by the City in fiscal year 2015 in relation to this was \$258,328.

(10) Rebate Agreements

The City has entered into various rebate agreements to assist in certain urban renewal projects. The agreements require the City to rebate portions of the incremental property tax paid by the developer in exchange for the construction of buildings and certain infrastructure improvements by the developers.

The total to be paid by the City under the agreements is not to exceed \$2,617,689. The total amount rebated during the year ended June 30, 2015 was \$229,134. The City has rebated a total of \$2,331,747 of incremental property tax under the agreements. The outstanding balance of the agreements at June 30, 2015 was \$285,942.

These agreements are not a general obligation of the City. In addition, the agreements are not subject to the constitutional debt limitation of the City because these agreements are subject to annual appropriation by the City Council.

(11) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(12) Deficit Balance

The Special Revenue, Employee Benefits Fund had a deficit balance of \$365 at June 30, 2015. This deficit was caused by spending more monies than available in the fund. It is anticipated that this deficit will be eliminated through subsequent collections of property taxes.

(13) Contingencies

The City participates in a number of Federal and State grant/loan programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability to the City. The City's management believes such revisions or disallowances, if any, will not be material to the City.

The City entered into an agreement with Clarke County, Clarke County Development Corporation, and The Village, Inc. This agreement states that the City will guarantee 25% of the United States Department of Agriculture loan in relation to construction and equipping of The Village, Inc. City personnel believe this agreement can be voided, at which time the City would have no potential liability.

(14) Commitments

The City has entered into an agreement with the Waterworks for sewer and garbage billing services. The City agrees to pay the Waterworks \$1,500 per month for fiscal years 2015-2017, and \$1,600 per month for fiscal years 2018-2020.

The City entered into an agreement with the South Central Iowa Landfill Agency (Agency) which permits the City's solid waste contractor to dispose of the waste at the Agency. Since the City is not a member of the Agency, the City's agreement with the Agency states that the City will pay \$5,000 per month until the amount of \$350,000 is paid. At June 30, 2015, the City has paid \$240,000 toward this obligation, and will owe an additional \$110,000 until paid. The total amount paid by the City to the Agency in fiscal year 2015 was \$60,000 in relation to this agreement.

The City entered into an agreement with a private contractor for residential solid waste collection. The agreement is through September 30, 2018. The amount paid to the contractor by the City is a set amount per household, and can be increased each year by the change in the consumer price index. In addition, the amount paid by the contractor can also be increased if the dumping fees at the landfill are increased. The total amount paid to the private contractor by the City for residential solid waste collection was \$333,351 in fiscal year 2015.

The City pays its local option sales tax receipts to the Clarke County Reservoir Commission (Commission). The City will pay the Commission all of its local option sales tax receipts until all the debt incurred by the Commission is fully paid. The total local option sales tax receipts paid by the City to the Commission totaled \$866,085 in fiscal year 2015.

The City has entered into various construction projects for infrastructure repair and construction. As of June 30, 2015, approximately \$1,365,000 remains to be paid on these projects. This work will be paid for as work progresses in fiscal year 2016. The City intends to pay for these projects with federal grants and from existing cash reserves.

The City received a \$600,000 federal grant, with the City providing \$1,256,500 in local match. As of the date the financial statements were available to be issued, minimal costs were incurred on this project, as this project was still in the design and engineering phase.

(15) Subsequent Events

The City has evaluated all subsequent events through February 15, 2016, the date the financial statements were available to be issued.

In fiscal year 2016, the City received \$192,500 in loans to be used for sewer plant design costs and for landfill post closure costs.

The City issued general obligation debt in fiscal year 2016 for \$3,005,000 for the purpose of refunding an old existing debt issue and for the purpose of paying for the purchase of equipment and street paving costs.

The City received grants for approximately \$180,000 for the funding of airport improvement projects with total project costs in excess of \$200,000. The City has to match 15% of these costs as local match. These projects will be paid for as work progresses.

(16) Restatements

The beginning cash balances were restated to reflect the exclusion of the discretely presented component units from the City's financial statements. The restatements are as follows:

	Balances at July 1, 2014, as previously reported	Restatements	Balances at July 1, 2014 as restated
Component Units net position:			
Osceola Public Library Foundation	\$ 1,237,729	(1,237,729)	-
Osceola Volunteer Firefighter's Association	2,439	(2,439)	-
Osceola Municipal Waterworks	478,415	(478,415)	-
Totals	\$ 1,718,583	(1,718,583)	-

Other Information

City of Osceola

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2015

	(Unaudited)					Final to Total Variance
	Component Unit			Budgeted Amounts		
	Governmental Funds Actual	Proprietary Funds Actual	Osceola Municipal Waterworks Actual	Original	Final	
Receipts:						
Property tax	\$ 2,485,444	-	-	2,485,444	2,364,240	100,291
Tax increment financing	587,337	-	-	587,337	574,549	12,788
Other city tax	2,320,501	-	-	2,320,501	2,116,334	204,167
Licenses and permits	89,559	-	-	89,559	69,500	20,059
Use of money and property	58,302	31	265,367	323,700	25,000	298,700
Intergovernmental	2,265,556	-	-	2,265,556	2,997,588	(732,032)
Charges for service	630,637	1,286,891	1,489,580	3,407,108	3,853,488	(446,380)
Miscellaneous	418,597	6,803	124,212	549,612	99,000	450,612
Total receipts	8,855,933	1,293,725	1,879,159	12,028,817	13,371,213	(91,795)
Disbursements:						
Public safety	1,198,303	-	-	1,198,303	1,256,650	27,197
Public works	1,343,162	-	-	1,343,162	1,374,984	31,822
Culture and recreation	813,069	-	-	813,069	840,583	42,532
Community and economic development	1,512,821	-	-	1,512,821	1,314,411	(198,410)
General government	682,897	-	-	682,897	623,712	(68,777)
Debt service	1,456,870	-	-	1,456,870	1,454,363	(2,507)
Capital projects	2,557,642	-	-	2,557,642	7,028,400	(208,064)
Business type activities	-	1,165,813	2,051,964	3,217,777	3,261,340	43,563
Total disbursements	9,564,764	1,165,813	2,051,964	12,782,541	16,108,212	(332,644)
Excess (deficiency) of receipts over (under) disbursements	(708,831)	127,912	(172,805)	(753,724)	(2,736,999)	(424,439)
Other financing sources, net	(2,973,315)	(71,345)	-	(3,044,660)	1,000,000	(3,044,660)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(3,682,146)	56,567	(172,805)	(3,798,384)	(1,736,999)	(3,469,099)
Balances beginning of year	6,095,127	651,361	466,374	7,212,862	4,443,425	7,212,862
Balances end of year	\$ 2,412,981	707,928	293,569	3,414,478	2,706,426	3,743,763

See accompanying independent auditor's report.

City of Osceola

Notes to Other Information - Budgetary Reporting

June 30, 2015

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment decreased budgeted disbursements by \$3,658,315. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2015, disbursements exceeded the amounts budgeted in the community and economic development, general government, debt service and capital projects functions.

City of Osceola

Schedule of the City's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
Last Fiscal Year*
(In Thousands)

Other Information

	<u>2015</u>
City's proportion of the net pension liability	0.011625%
City's proportionate share of the net pension liability	\$ 461
City's covered employee payroll	\$ 1,522
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	30.29%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

* The amounts presented for each fiscal year were determined as of June 30.

See accompanying independent auditor's report.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

City of Osceola

Schedule of City Contributions

Iowa Public Employees' Retirement System
Last 10 Fiscal Years
(In Thousands)

Other Information

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Statutorily required contribution	\$ 146	142	153	153	124	122	107	101	96	93
Contributions in relation to the statutorily required contribution	(146)	(142)	(153)	(153)	(124)	(122)	(107)	(101)	(96)	(93)
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-	-	-	-
City's covered-employee payroll	\$ 1,552	1,522	1,673	*	*	*	*	*	*	*
Contributions as a percentage of covered-employee payroll	9.41%	9.33%	9.15%	*	*	*	*	*	*	*

* - City's covered employee payroll information was not readily available. Therefore, contributions as a percentage of covered employee payroll could not be calculated.

See accompanying independent auditor's report.

City of Osceola

Notes to Other Information – Pension Liability

Year ended June 30, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

Supplementary Information

City of Osceola

Schedule 1

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2015

	Special Revenue					Permanent		Total
	Road Use Tax	Employee Benefits	Urban Renewal Tax Increment	Local Option Sales Tax	Police Forfeiture	Library	Cemetery Perpetual Care	
Receipts:								
Property tax	\$ -	85,595	-	-	-	-	-	85,595
Tax increment financing	-	-	587,337	-	-	-	-	587,337
Other city tax	-	-	-	866,085	-	-	-	866,085
Use of money and property	-	-	-	-	4	-	-	4
Intergovernmental	512,530	-	-	-	-	-	-	512,530
Miscellaneous	4,355	-	-	-	100	-	-	4,455
Total receipts	516,885	85,595	587,337	866,085	104	-	-	2,056,006
Disbursements:								
Operating:								
Public safety	-	219,577	-	-	600	-	-	220,177
Public works	577,627	122,290	-	-	-	-	-	699,917
Culture and recreation	-	116,693	-	-	-	-	-	116,693
Community and economic development	-	28,043	229,134	866,085	-	-	-	1,123,262
General government	-	62,346	-	7,067	-	-	-	69,413
Total disbursements	577,627	548,949	229,134	873,152	600	-	-	2,229,462
Excess (deficiency) of receipts over (under) disbursements	(60,742)	(463,354)	358,203	(7,067)	(496)	-	-	(173,456)
Other financing sources (uses):								
Transfers in	139,804	462,989	-	-	-	-	-	602,793
Transfers out	-	-	(828,380)	-	-	-	-	(828,380)
Total other financing sources (uses)	139,804	462,989	(828,380)	-	-	-	-	(225,587)
Change in cash balances	79,062	(365)	(470,177)	(7,067)	(496)	-	-	(399,043)
Cash balances beginning of year	41,860	-	669,751	47,496	9,129	1,759	103,262	873,257
Cash balances end of year	\$ 120,922	(365)	199,574	40,429	8,633	1,759	103,262	474,214
Cash Basis Fund Balances								
Nonspendable:								
Library	\$ -	-	-	-	-	1,759	-	1,759
Cemetery perpetual care	-	-	-	-	-	-	103,262	103,262
Restricted for:								
Streets	120,922	-	-	-	-	-	-	120,922
Tax increment financing	-	-	199,574	-	-	-	-	199,574
Other purposes	-	-	-	40,429	8,633	-	-	49,062
Unassigned	-	(365)	-	-	-	-	-	(365)
Total cash basis fund balances	\$ 120,922	(365)	199,574	40,429	8,633	1,759	103,262	474,214

See accompanying independent auditor's report.

City of Osceola

Schedule 2

Schedule of Indebtedness

Year ended June 30, 2015

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Bonds and Notes -									
Corporate Purpose	September 12, 2003	2.50 to 4.30%	\$ 500,000	65,000	-	65,000	-	1,002	-
Corporate Purpose	August 1, 2007	4.00 to 5.00%	4,500,000	3,200,000	-	3,200,000	-	152,946	-
Corporate Purpose	August 1, 2009	1.25 to 4.40%	2,750,000	1,970,000	-	165,000	1,805,000	77,255	-
Fire Truck	April 2, 2010	3.36%	751,533	160,600	-	160,600	-	2,721	-
Refunding	November 30, 2011	0.65 to 2.10%	3,360,000	2,895,000	-	470,000	2,425,000	44,168	-
Sewer Improvement Bond	February 15, 2013	1.75%	101,000	62,000	-	20,000	42,000	1,103	-
Corporate Purpose and Refunding Bonds	June 17, 2014	2.00 to 2.75%	4,035,000	4,035,000	-	60,000	3,975,000	79,861	-
Total			\$ 12,387,600		-	4,140,600	8,247,000	359,056	-
Revenue Bonds -									
Sewer Revenue Improvement and Refunding	May 31, 2012	0.60 to 3.25%	\$ 4,700,000	4,300,000	-	200,000	4,100,000	104,504	-
Lease Purchase Agreements -									
Equipment	September 9, 2009	4.50%	\$ 79,800	17,425	-	17,425	-	800	-
Equipment	August 19, 2014	2.25%	116,625	-	116,625	23,809	92,816	1,143	-
Equipment	April 8, 2015	2.75%	23,436	-	23,436	-	23,436	-	-
			\$ 17,425	140,061		41,234	116,252	1,943	-

See accompanying independent auditor's report.

Bond and Note Maturities

June 30, 2015

General Obligation Bonds and Notes									
Year Ending June 30,	Corporate Purpose Issued August 1, 2009		Refunding Issued November 30, 2011		Sewer Improvement Bond Issued February 15, 2013		Corporate Purpose and Refunding Bonds Issued June 17, 2014		
	Interest		Interest		Interest		Interest		Total
	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	
2016	3.40%	\$ 170,000	1.15%	\$ 470,000	1.75%	\$ 21,000	2.00%	\$ 435,000	1,096,000
2017	3.60%	180,000	1.40%	480,000	1.75%	21,000	2.00%	450,000	1,131,000
2018	3.75%	185,000	1.65%	485,000	-	-	2.00%	455,000	1,125,000
2019	3.90%	190,000	1.90%	490,000	-	-	2.00%	465,000	1,145,000
2020	4.00%	200,000	2.10%	500,000	-	-	2.00%	475,000	1,175,000
2021	4.10%	205,000	-	-	-	-	2.00%	480,000	685,000
2022	4.20%	215,000	-	-	-	-	2.00%	495,000	710,000
2023	4.30%	225,000	-	-	-	-	2.25%	505,000	730,000
2024	4.40%	235,000	-	-	-	-	2.75%	105,000	340,000
2025	-	-	-	-	-	-	2.75%	110,000	110,000
		<u>\$ 1,805,000</u>		<u>\$ 2,425,000</u>		<u>\$ 42,000</u>		<u>\$ 3,975,000</u>	<u>8,247,000</u>

Revenue Bonds		
Sewer Revenue Improvement and Refunding Issued May 31, 2012		
Year Ending June 30,	Interest Rates	Amount
2016	1.100%	\$ 205,000
2017	1.300%	205,000
2018	1.500%	210,000
2019	1.800%	210,000
2020	1.800%	215,000
2021	2.100%	220,000
2022	2.250%	225,000
2023	2.400%	230,000
2024	2.625%	235,000
2025	2.625%	240,000
2026	3.000%	250,000
2027	3.000%	255,000
2028	3.000%	265,000
2029	3.000%	270,000
2030	3.250%	280,000
2031	3.250%	290,000
2032	3.250%	295,000
		<u>\$ 4,100,000</u>

See accompanying independent auditor's report.

City of Osceola

Schedule 4

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Ten Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Receipts:										
Property tax	\$ 2,485,444	2,406,299	2,315,379	2,226,483	1,892,950	2,102,099	1,895,269	1,712,784	1,682,743	1,592,606
Tax increment financing	587,337	536,385	640,381	895,130	1,781,622	1,057,921	1,404,735	789,314	678,536	603,981
Other city tax	2,320,501	2,151,746	1,972,307	1,999,273	1,757,377	1,149,150	1,091,088	769,961	753,174	552,620
Licenses and permits	89,559	59,612	126,530	90,066	74,672	82,916	12,608	13,051	11,677	15,773
Use of money and property	58,302	52,781	20,271	35,812	120,671	221,638	150,883	357,239	1,382,319	1,197,582
Intergovernmental	2,265,556	674,301	849,000	547,428	1,277,390	1,004,665	905,952	873,023	825,723	851,667
Charges for service	630,637	534,780	571,809	649,790	496,799	1,408,787	1,474,333	1,379,026	530,078	435,661
Miscellaneous	418,597	94,706	58,618	105,545	249,634	605,676	114,691	222,955	340,819	915,980
Total	\$ 8,855,933	6,510,610	6,554,295	6,549,527	7,651,115	7,632,852	7,049,559	6,117,353	6,205,069	6,165,870
Disbursements:										
Operating:										
Public safety	\$ 1,198,303	1,140,064	1,102,342	993,430	925,005	895,638	806,140	920,333	778,792	748,843
Public works	1,343,162	1,273,154	1,083,128	1,158,217	1,516,706	948,194	886,624	1,185,219	1,327,025	1,528,242
Culture and recreation	813,069	791,516	744,244	770,405	724,842	734,817	674,463	761,378	829,558	726,759
Community and economic development	1,512,821	1,432,539	5,066,991	1,497,676	1,261,826	1,309,821	1,712,442	609,503	310,974	165,339
General government	682,897	645,175	791,599	811,127	666,588	614,904	615,453	574,462	919,082	745,378
Debt service	1,456,870	1,458,333	1,478,480	1,541,536	1,547,240	1,351,643	1,080,663	1,188,129	931,079	2,087,209
Capital projects	2,557,642	1,090,797	1,546,448	1,248,400	2,785,860	2,072,884	1,471,827	4,172,811	1,629,160	4,152,489
Total	\$ 9,564,764	7,831,578	11,813,232	8,020,791	9,428,067	7,927,901	7,247,612	9,411,835	6,725,670	10,154,259

See accompanying independent auditor's report.

City of Osceola

Schedule 5

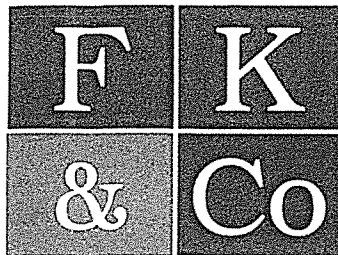
Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

Grantor/Program	CFDA Number	Agency Pass-Through Number	Program Expenditures
Direct:			
U.S. Department of Justice: Public Safety Partnership and Community Policing Grants	16.710	2010-UMWX0092	\$ 10,160
U.S. Department of Transportation: Federal Aviation Administration Airports Division: Airport Improvement Program	20.106	3-19-0108-012-2013 3-19-0108-013-2014	241,819 229,356 <u>471,175</u>
Total - Direct			<u>481,335</u>
Indirect:			
U.S. Department of Housing and Urban Development: Iowa Economic Development Authority: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (\$414,063 provided to subrecipients)	14.228	12-WS-022 13-DTR-005 13-WS-031	154,475 414,063 28,516 <u>597,054</u>
U.S. Department of Interior: Fish and Wildlife Service: Iowa Department of Natural Resources: Clean Vessel Act Program	15.616	15-589	<u>98,048</u>
U.S. Department of Transportation: Iowa Department of Transportation: Highway Planning and Construction	20.205	13-STPES-104	<u>195,391</u>
Total - Indirect			<u>890,493</u>
Total			<u>\$ 1,371,828</u>

Basis of Presentation - The Schedule of Expenditure of Federal Awards includes the federal grant activity of the City of Osceola and is presented on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osceola, Iowa (City) as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 15, 2016. Our report expressed unmodified opinions on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information, which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. Our report expressed an adverse opinion on the aggregate discretely presented component units due to the omission of the Osceola Public Library Foundation, Osceola Volunteer Firefighter's Association and the Osceola Municipal Waterworks.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings and Questioned Costs as items II-A-15 through II-D-15 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items II-E-15 and II-F-15 to be a significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City's Responses to the Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

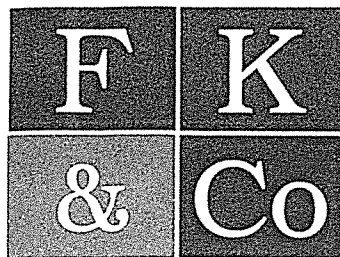
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


FALLER, KINCHELOE & CO., PLC

Des Moines, Iowa
February 15, 2016



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report on Compliance
for Each Major Federal Program and on Internal Control over Compliance
Required by OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Osceola Iowa's (City) compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City's major federal programs for the year ended June 30, 2015. The City's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal programs. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal programs to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal programs and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified deficiencies in internal control over compliance we consider to be material weaknesses and other deficiencies we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items III-A-15, III-B-15, III-D-15 and III-E-15 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-C-15 to be a significant deficiency.

The City's response to the internal control over compliance finding identified in our audit is reported in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



FALLER, KINCHELOE & CO., PLC

Des Moines, Iowa
February 15, 2016

City of Osceola

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

Part I: Summary of the Independent Auditor's Results:

- (a) Unmodified opinions were issued on the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. An adverse opinion was issued on the financial statements of the aggregate discretely presented component units due to the omission of the Osceola Public Library Foundation, Osceola Volunteer Firefighter's Association and the Osceola Municipal Waterworks.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency and material weaknesses in internal control over the major programs were disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were CFDA Number 14.228 – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii and CFDA Number 20.106 Airport Improvement Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Osceola did not qualify as a low-risk auditee.

City of Osceola

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-15 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Although one to three individuals are involved in the accounting duties of the City of Osceola (City), there is insufficient segregation of duties to prevent one individual from having control over each of the following areas:

- 1) Cash – reconciling bank accounts, initiating cash receipts and handling and recording cash.
- 2) Investments – detailed record keeping, custody and reconciling.
- 3) Long-term debt – recording and reconciling.
- 4) Receipts – collecting, depositing, posting and reconciling.
- 5) Accounting system – performing all general accounting functions and having custody of City assets.
- 6) Disbursements – preparing checks, signing checks and access to the accounting records.
- 7) Petty cash – custody, reconciling and recording.
- 8) Payroll – recordkeeping, preparation and distribution.

Recommendation – We realize with a limited number of office employees, segregation of duties is difficult. However, the City should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and date of the review.

Response and Corrective Action Planned – The City will review their control procedures to obtain the maximum internal control possible with the limited staff they have.

Conclusion – Response acknowledged.

II-B-15 Financial Reporting – Internal controls over financial reporting include actual preparation and review of financial statements, including footnote disclosure, for external reporting, as required by an other comprehensive basis of accounting. The City does not have the internal resources to prepare the full-disclosure financial statements required by an other comprehensive basis of accounting for external reporting purposes. While this circumstance is not uncommon for most small governmental entities, it is the responsibility of management and those charged with governance, to prepare reliable financial data, or accept the risk associated with this condition because of cost or other considerations.

Recommendation – With a limited number of office employees, gaining sufficient knowledge and expertise to properly select and apply accounting principles and prepare full disclosure financial statements for external reporting purposes is difficult. However, we recommend the City continue to review operating procedures and obtain the internal expertise needed to handle all the aspects of external financial reporting, rather than rely on external assistance.

Response – The management officials will attempt to read relevant accounting literature and attend professional education courses to improve in the ability to apply accounting principles. However, it is not fiscally responsible to add additional staff at this time.

Conclusion – Response acknowledged.

City of Osceola

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

II-C-15 Preparation of Schedule of Federal Awards – Through review of the City's grant activity and the process of gathering information for required reporting, we determined that there is a need for improvement in the procedures related to the preparation of the Schedule of Expenditure of Federal Awards (SEFA), including the accuracy of the CFDA numbers and the accuracy and completeness of expenditure amounts reported on the SEFA. The City does not have a centralized process to gather the information required to be reported under OMB Circular A-133. As a result, the schedule contained errors and omissions.

Recommendation – We recommend the City create a process and designate an individual to track and accurately report all information required to be included on the SEFA.

Response and Corrective Action Planned – We will attempt to implement this recommendation.

Conclusion – Response acknowledged.

II-D-15 Material Adjustments - We proposed an adjusting journal entry that was material to the City's financial statements. Adjusting journal entries were made to properly record Debt Service Fund transactions. Adjustments were subsequently made by the City to properly record this transaction on the City's financial statements.

Recommendation – We recommend the City implement procedures to ensure all transactions are properly recorded on the City's accounting records.

Response – We will attempt to implement this recommendation.

Conclusion – Response acknowledged.

II-E-15 Timely Deposits – Receipts generally appear to be deposited only once per week, resulting in receipts not being deposited in a timely manner.

Recommendation – To safeguard cash, receipts should be deposited intact on a timely basis, preferably daily.

Response – We will attempt to implement these recommendations.

Conclusion – Response acknowledged.

II-F-15 Chart of Accounts – The City is not consistently following the Uniform Chart of Accounts for City Governments in Iowa as recommended by the City Finance Committee. For example, several disbursements were classified to the incorrect department.

Recommendation – The City should implement procedures to ensure all transactions are recorded in accordance with the Uniform Chart of Accounts.

Response – We will implement this to the best of our ability.

Conclusion – Response acknowledged.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Osceola

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 14.228: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii

Pass-through Agency Number: 12-WS-022, 13-DTR-005, 13-WS-031

Federal Award Year: 2012, 2013

U.S. Department of Housing and Urban Development

Passed through the Iowa Economic Development Authority

CFDA Number 20.106: Airport Improvement Program

Pass-through Agency Number: 3-19-0108-012-2013, 3-19-0108-013-2014

Federal Award Year: 2013, 2014

U.S. Department of Transportation

III-A-15 Preparation of Schedule of Federal Awards – The City does not have a centralized
(2015-001) process to gather the information required to be reported under OMB Circular A-133.
See item II-C-15.

III-B-15 Segregation of Duties over Federal Receipts – The City did not properly segregate
(2015-002) collection, deposit and record keeping for receipts, including those related to federal
programs. See item II-A-15.

CFDA Number 14.228: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii

Pass-through Agency Number: 13-DTR-005

Federal Award Year: 2013

U.S. Department of Housing and Urban Development

Passed through the Iowa Economic Development Authority

III-C-15 Monitoring – The City entered into an agreement with a non-profit to carry out the
(2015-003) activities of the Community Development Block Grant (CDBG) program. The City also
entered into an agreement with the Southern Iowa Council of Governments (SICOG) to
administer CDBG program on behalf of the City. This agreement states SICOG will
identify applicable federal and state laws and regulations and assist in complying with
federal and state requirements. In addition, the agreement states SICOG will monitor and
evaluate the project progress to facilitate compliance with applicable federal and state
laws and regulations.

SICOG monitored the CDBG project to ensure compliance with the requirements of the
Office of Management and Budget (OMB) A-133 Compliance Supplement. However,
since the City was the primary recipient of the CDBG program funds, the City retained
responsibility to ensure these requirements were met. The City did not maintain
documentation indicating program requirements were met.

Recommendation – The City should receive and maintain documentation to ensure
applicable compliance requirements have been met.

City of Osceola

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

Response and Corrective Action Planned– Documentation will be maintained in the future to ensure all federal compliance requirements are met.

Conclusion – Response acknowledged.

CFDA Number 20.106: Airport Improvement Program
Pass-through Agency Number: 3-19-0108-012-2013, 3-19-0108-013-2014
Federal Award Year: 2013, 2014
U.S. Department of Transportation

III-D-15 Cash Management – The City held Airport Improvement Program funds for several
(2015-004) weeks prior to disbursement. This is not allowed pursuant to the federal requirements.

Recommendation – In order to be in compliance with the cash management requirements, the City should implement procedures to ensure Airport Improvement Program funds are obtained on a reimbursement basis.

Response and Corrective Action Planned – We will implement this recommendation.

Conclusion – Response acknowledged.

CFDA Number 14.228: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
Pass-through Agency Number: 13-DTR-005
Federal Award Year: 2013
U.S. Department of Housing and Urban Development
Passed through the Iowa Economic Development Authority

III-E-15 Cash Management – The City held Community Development Block Grant funds of over
(2015-005) \$100 in excess of 10 days. This is not allowed pursuant to the Community Development Block Grant requirements.

Recommendation – The City should implement procedures to ensure Community Development Block Grant funds of over \$100 are not held in excess of 10 days, as required by the Community Development Block Grant requirements.

Response and Corrective Action Planned – We will implement this recommendation.

Conclusion – Response acknowledged.

City of Osceola

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-15 Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public safety, public works, culture and recreation and the business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

The beginning and ending cash balances on the budget amendment did not agree to the beginning and ending cash balances as recorded on the original budget.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. In addition, the beginning and ending cash balances on the budget amendment should agree to the beginning and ending cash balances as recorded on the original budget.

Response – We will implement these recommendations.

Conclusion – Response acknowledged.

IV-B-15 Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

IV-C-15 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-15 Business Transactions – No business transactions between the City and City officials or employees were noted.

IV-E-15 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-F-15 Council Minutes – Except as noted below, no transactions were found that we believe should have been approved in the Council minutes but were not.

Some claims were not approved by the City Council or published in the newspaper. In addition, total disbursements from each fund is also required to be published in the newspaper. All of this is required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should ensure all claims are approved by the City Council and are published in the newspaper, and that total disbursements by fund is also published in the newspaper, as required by the Code of Iowa.

Response – We will implement this recommendation.

Conclusion - Response acknowledged.

IV-G-15 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

City of Osceola

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

IV-H-15 Sewer Revenue Bonds – The following instances of non-compliance with the sewer revenue bond resolutions were noted:

- The sewer revenue bond resolutions require all users of the system, including the City, be charged for usage. The City is not currently charged for sewer usage.
- The sewer revenue bond resolutions require the City to make sufficient monthly transfers to a separate sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due. The City did not fund the sewer revenue bond sinking account each month as required.

Recommendation – The City should ensure all City departments pay for sewer usage, and should make transfers to the sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due.

Response – We will implement these recommendations.

Conclusion – Response acknowledged.

IV-I-15 Emergency Fund Levy – Chapter 384.8 of the Code of Iowa provides a City may establish an Emergency Fund and transfers may be made from the Emergency Fund to the General Fund. The City levied property tax for the Emergency Fund, but recorded the property tax in the General Fund rather than establishing a separate fund.

Recommendation – The City should review this for compliance in the future.

Response – The City will record the amounts from the emergency levy to a special revenue fund in order to keep them separate.

Conclusion – Response acknowledged.

IV-J-15 Financial Condition – The Special Revenue, Employee Benefits Fund had a deficit balance of \$365 at June 30, 2015.

Recommendation – The City should investigate alternatives to eliminate this deficit to return this fund to a sound financial position.

Response – We will review this and take appropriate action.

Conclusion – Response acknowledged.

IV-K-15 Compliance Issues – The City's liability tax levy appears to be excessive given the amount of liability insurance costs paid for by the City. The City levied approximately \$145,000 for liability insurance, but the total liability insurance cost was only approximately \$93,000. The Code of Iowa only allows a City to establish a liability insurance tax levy up to the amount needed for applicable liability insurance costs. It would not appear that the Code of Iowa allows a City to levy a tax for liability insurance purposes in order to fund the general operations of the City. In addition, the City pays the liability insurance costs from this levy for the sewer department.

City of Osceola

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

Recommendation – The City should implement procedures to ensure the tax levy for liability insurance be established at a rate which approximates the applicable liability insurance costs paid for by the City. In addition, costs incurred for liability insurance coverage for the sewer operations should be charged to those funds.

Response – We will implement these recommendations.

Conclusion - Response acknowledged.

IV-L-15 Local Option Sales Tax – The City paid \$7,067 for GIS software from the Special Revenue, Local Option Sales Tax Fund. The local option sales tax ballot requires the City to spend the local option sales tax receipts on street improvements. Based on the requirements of the local option sales tax ballot referendum, it is questionable if the City can use these local option sales tax receipts to pay for GIS software.

Recommendation – The City should implement procedures to ensure all local option sales tax receipts are spent in accordance with the local option sales tax referendum.

Response – We will implement this recommendation.

Conclusion - Response acknowledged.

IV-M-15 Timely Filing of Claims – The City has to file reimbursement claims with the Iowa Economic Development Authority and the Federal Aviation Administration in order to obtain reimbursement from federal grants. The City is not timely filing these claims. For example, the City incurred several hundred thousand dollars of costs in relation to these grants, with some of these costs incurred in fiscal year 2012, for which related claims were not filed until fiscal year 2015 or fiscal year 2016.

Recommendation – The City should implement procedures to ensure all grant claim forms are filed on a timely basis.

Response – We will ensure that all claim forms are filed timely in the future.

Conclusion - Response acknowledged.

IV-N-15 Casino Lease – The City has various contracts and agreements with the Casino which states the City is to receive a total of 2.25% of the adjusted gross gambling receipts from the Casino. It does not appear the City has implemented procedures to ensure the monetary terms of this agreement with the Casino are met.

Recommendation – The City should implement procedures to ensure the monetary terms of the agreement with the Casino are met.

Response – We will evaluate this and determine the appropriate course of action.

Conclusion – Response acknowledged.

City of Osceola

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

IV-O-15 Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from incremental property tax. The County Auditor provides for the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. Chapter 403.19 of the Code of Iowa requires the date the City Council initially approved the debt be included on the TIF certification. During the fiscal year, the following concerns were noted in relation to TIF.

- It appears the City certified to the County Auditor approximately \$199,000 in costs in excess of actual obligations.
- Currently the City determines the amount of TIF rebate based on the total taxes paid. However, the economic development agreements state that the TIF rebates would be based on incremental property taxes. As a result, it appears the City may have paid too much in TIF rebates.

Recommendation – The City should consult with TIF legal counsel to resolve the above issues.

Response – We believe we have fixed all of the above issues in fiscal year 2016.

Conclusion - Response acknowledged.

IV-P-15 Compensation – Fire and rescue personnel who work for the City currently are paid as independent contractors. It would appear that these individuals are employees who should be paid as employees, with all applicable taxes withheld, and the City contributing its share of the payroll taxes.

Recommendation – The City should review its procedures and determine if individuals who receive compensation should be paid as employees or independent contractors. If the individuals should be paid as employees, all applicable payroll withholdings and employer payroll taxes should be withheld and paid by the City.

Response – We will review this and take appropriate action.

Conclusion – Response acknowledged.

IV-Q-15 Financing Decisions – The City entered into a lease purchase agreement for the purchase of equipment, payable from the Enterprise, Sewer Fund. The City will incur \$3,550 in interest and fees on a \$23,436 lease. In addition, the City has approximately \$400,000 of unrestricted funds in the Enterprise, Sewer Fund at June 30, 2015. It is questionable as to why the City is incurring these interest and fees costs given the financial condition of the Enterprise, Sewer Fund.

Recommendation – The City should review its financing procedures to ensure that it is in the best interests of the City.

Response – These decisions will be analyzed with more scrutiny in the future.

Conclusion – Response accepted.

City of Osceola

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

IV-R-15 Unclaimed Property – Chapter 556.11 of the Code of Iowa requires all cities to report and remit outstanding obligations, including checks, to the Treasurer of State annually. The City did not remit all outstanding obligations held for more than two years to the Office of Treasurer of State annually.

Recommendation – The City should ensure outstanding obligations are reviewed annually and amounts over two years old should be remitted to the Office of Treasurer of State annually, as required.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

IV-S-15 Annual Urban Renewal Report AURR – The annual urban renewal report was properly approved and certified to the Iowa Department of Management on or before December 1.

However, it appears the amounts reported by the City as TIF debt outstanding on the AURR was understated by approximately \$1,389,000.

Recommendation – The City should ensure the debt amounts reported on the Levy Authority Summary of the AURR agree with the City's accounting records.

Response – These items will be corrected on next year's report.

Conclusion – Response acknowledged.